BANK INDONESIA

No. 17/38/DPM

Jakarta, November 16, 2015

CIRCULAR LETTER

To

ALL COMMERCIAL BANKS AND INTERMEDIARY AGENCIES

IN INDONESIA

Concerning : Criteria and Requirements for Securities, Participants, and Intermediary Agencies in Monetary Operations

In connection with Bank Indonesia Regulation Number 12/11/PBI/2010 concerning Monetary Operations (State Gazette of the Republic of Indonesia of 2010 Number 84, Supplement to State Gazette of the Republic of Indonesia Number 5141) as last amended by Bank Indonesia Regulation Number 17/20/PBI/2015 (State Gazette of the Republic of Indonesia of 2015 Number 275, Supplement to State Gazette of the Republic of Indonesia Number 5764) and to strengthen the infrastructures of Monetary Operation transactions, it is necessary to re-regulate the implementing provisions for criteria and requirements for Securities, participants, and intermediary agencies in Monetary Operations in this Bank Indonesia Circular Letter as follows:

I.   GENERAL PROVISIONS

In this Bank Indonesia Circular Letter:

1.   Bank shall be Commercial Bank as referred to in the applicable Act concerning Banking, conducting conventional business activities.

2. Monetary Operation shall be the implementation of monetary operations by Bank Indonesia for monetary control through open market operations and standing facilities.

3. Open Market Operation, hereinafter referred to as OMO, shall be transactions in money market conducted by Bank Indonesia with Banks and/or other parties in the context of Monetary Operations.

4. Standing Facilities shall be rupiah lending facility from Bank Indonesia to Banks and deposit facility by Banks at Bank Indonesia in the context of Monetary Operations.

5. Securities shall be securities issued by Bank Indonesia, Sovereign Securities, and other securities used in Monetary Operations as specified in this circular letter.

6. Bank Indonesia Certificate, hereinafter referred to as SBI, shall be securities in rupiah currency issued by Bank Indonesia as acknowledgment of short-term indebtedness.

7. Bank Indonesia Deposit Certificate, hereinafter referred to as SDBI, shall be securities in rupiah currency issued by Bank Indonesia as acknowledgment of short term indebtedness, which may only be traded between Banks.

8. Sovereign Securities, hereinafter referred to as SBN, shall be Sovereign Debt Securities and Sovereign Sharia Securities.

9. Sovereign Debt Securities, hereinafter briefly referred to as SUN, shall be securities in the form of acknowledgment of indebtedness in rupiah currency or foreign currency, the payments of interest and principal of which guaranteed by the Government of Republic of Indonesia, in accordance with the validity thereof, as referred to in the applicable Act.

10. Sovereign Sharia Securities, hereinafter referred to as SBSN, or may be referred to as Sovereign Sukuk, shall be SBN issued based on the sharia principles, either in rupiah currency or foreign currency, as proof of participation in SBSN assets, as referred to in the applicable Act.

11. Government Bond shall be SUN with a period of more than 12 (twelve) months with coupon and/or discounted interest payment.

12. Treasury Bills, hereinafter referred to as SPN, shall be SUN with a period of until 12 (twelve) months with discounted interest payment.

13. Zero Coupon Bond, hereinafter referred to as ZCB, shall be non-coupon Government Bond with discounted interest payment.

14. Retail Government Bond, hereinafter referred to as ORI, shall be Government Bond, which, in the primary market, is sold to individuals of Indonesian citizenship.

15. Retail Sovereign Sharia Securities, hereinafter referred to as Retail SBSN, or may be called Retail Sovereign Sukuk, shall be SBSN which is sold to individuals of Indonesian citizenship through a selling agent.

16. Long Term SBSN shall be SBSN with a period of more than 12 (twelve) months with return payment in the form of coupon and/or discount.

17. Short Term SBSN or Sharia Treasury Bills shall be SBSN with a period of until 12 (twelve) months with return payment in the form of coupon and/or discount.

18. Repurchase Agreement Transaction, hereinafter referred to as Repo Transaction, shall be sale of Securities by Monetary Operation participants to Bank Indonesia with a repurchase obligation by Monetary Operation participants at the agreed price and on the agreed term.

19. Reverse Repo Transaction shall be purchase of Securities by OMO Participants from Bank Indonesia with a reverse repo obligation by OMO Participants at the agreed price and on the agreed term.

20. Outright Transaction shall be purchase and sale of Securities by Monetary Operation participants to Bank Indonesia in an outright manner without any resale and repurchase obligation by Monetary Operation participants.

21. Bank Indonesia-Real Time Gross Settlement System, hereinafter referred to as BI-RTGS System, shall be an electronic fund transfer system between BI-RTGS System participants in rupiah whose settlements are made real-time per individual transaction as specified in Bank Indonesia regulation concerning transaction implementation, securities administration, and real-time fund settlement.

22. Bank Indonesia-Scripless Securities Settlement System, hereinafter referred to as BI-SSSS, shall be an infrastructure used as a transaction administration facility with Bank Indonesia and financial market transactions, as well as securities administration, conducted in an electronic manner as specified in Bank Indonesia regulation concerning transaction implementation, securities administration, and real-time fund settlement.

23. Bank Indonesia-Electronic Trading Platform, hereinafter referred to as BI-ETP System, shall be an infrastructure used as transaction facility with Bank Indonesia and financial market transactions as specified in Bank Indonesia regulation concerning transaction implementation, securities administration, and real-time fund settlement.

II. SECURITIES

1. Criteria for Securities, which may be used in Monetary Operations, are as follows:

   a. Securities in Rupiah currency

      1) issued by Bank Indonesia, and/or the Republic of Indonesia;

      2) recorded on BI-SSSS; and

      3) are put up as collateral.

   b. Securities in foreign currencies

      1) issued by another country's government whose central bank has cooperation with Bank Indonesia, among others in the form of cross border collateral arrangement;

      2) follow denomination of the issuing country;

      3) recorded in the asset of Monetary Operation participant, which is recorded in the securities account of Monetary Operation participant with the agreed custodian agency;

      4) have an investment grade; and

      5) are put up as collateral.

2. Types of Securities, which meet the criteria as set forth in point 1, consist of:

   a. SBI;

   b. SDBI;

   c. SBN, consisting of:

      1) SUN consisting of SPN and Government Bond, including ZCB and ORI; and

      2) SBSN consisting of Short Term SBSN and Long Term SBSN, including Retail SBSN; and

3) Short term or long term securities issued by another country's government (sovereign bond).

3. Requirements for Securities:

For Repo Transactions for OMO and lending facility:

a. SBI

Has the shortest remaining term of 2 (two) business days in the second leg of Repo Transaction.

b. SDBI

Has the shortest remaining term of 2 (two) business days in the second leg of Repo Transaction.

c. SBN

Has the shortest remaining term of 3 (three) business days in the second leg of Repo Transaction.

d. Securities in foreign currencies

Has the shortest remaining term of 30 (thirty) calendar days in the second leg of Repo Transaction.

III. PRICE AND HAIRCUT OF SECURITIES

1. Price and haircut of Securities are determined and announced by Bank Indonesia on BI-ETP System, BI-SSSS, and/or other means.

2. The price of Securities set forth in point 1 is determined as follows:

a. SBI Price is determined by Bank Indonesia by considering among others the weighted average of discount rate on issuance and the remaining term of each SBI series.

b. SDBI price is determined by Bank Indonesia by considering among others the weighted average of discount rate on issuance and the remaining term of each SDBI series.

c. Prices of SBN and securities in foreign currencies are determined by Bank Indonesia by considering among others the market price of each type and series of SBN and securities in foreign currencies (sovereign bond).

3. Haircut is a subtracting factor of Securities.

4. Haircut of Securities set forth in point 1 is determined as follows:

a. for SBI of 0% (zero percent);

b. for SDBI of 0% (zero percent);

c. for SBN consisting of:

1) SUN of 5% (five percent);

2) SBSN of 6.5% (six point five percent);

d. as announced by Bank Indonesia on the implementation of transaction for securities in foreign currencies (sovereign bond).

5. Bank Indonesia may change the haircut set forth in point 4 and announce the change through BI-ETP System, BI-SSSS, and Commercial Bank Daily Report (LHBU) System, and/or other facilities.

6. In the event of outright sale by a Monetary Operation participant due to settlement failure in the second leg of Repo Transaction or lending facility, the price used in calculation shall be that on the date of the highest Outright Transaction equal to the transaction price in the first leg.

7. In the event of outright purchase by a Monetary Operation participant due to settlement failure in the second leg of Reverse Repo Transaction, the price used

in calculation shall be that on the date of the lowest Outright Transaction equal to the transaction price in the first leg.

8. In the event of sale of Securities in foreign currencies by Bank Indonesia due to settlement failure in the second leg of Repo Transaction, the price used in calculation shall be that of securities sale by Bank Indonesia on the sale date.

IV. CALCULATION OF SETTLEMENT VALUE OF SECURITIES IN RUPIAH

1. Calculation of Settlement Value of Lending Facility Transaction, Repo Transaction with Securities in Rupiah, and Reverse Repo Transaction

   a. Settlement value of Securities amounts to the nominal value of Securities under repo or reverse repo.

   b. Fund settlement value for first leg settlement is calculated as follows:

   1) SBI, SDBI, SPN, ZCB, and Short Term SBSN

settlement value in the first leg	=	nominal of Securities under repo	x	(price of Securities – haircut)

   2) Government Bond, including ORI, Long Term SBSN

settlement value in the first leg	=	[nominal of Securities under repo	x	(price of Securities – haircut)]	+	accrued interest/ return

   Note:

   Price of Securities : Price of Securities as announced on BI-ETP System and BI-SSSS on the transaction date of lending facility, Repo Transaction, or Reverse Repo Transaction

   Haircut : Haircut as announced on BI-ETP System and

BI-SSSS on the transaction date of lending facility, Repo Transaction, or Reverse Repo Transaction

Accrued Interest or : Right on coupon or return of Securities
Accrued Return calculated as from 1 (one) day after the last date of coupon or return payment until the first leg settlement date.

c. Fund settlement value for the second leg settlement is calculated as follows:

settlement value in the second leg	=	settlement value in the first leg	+	interest of repo/reverse repo/ lending facility transaction

interest of repo/reverse repo/ lending facility transaction	=	settlement value in the first leg	x	repo rate/reverse repo rate/ lending facility rate	x	$\dfrac{\text{term}}{360}$

Note:

Term : Term of lending facility or Repo Transaction or Reverse Repo Transaction

2. Outright Transaction

Calculation of settlement value of outright purchase or sale of Securities is as follows:

a. SPN, ZCB, and Short Term SBSN

outright settlement value	=	nominal of Securities	+	price of Securities

b. Treasury Bills, including ORI, Long Term SBSN

outright settlement value	=	[nominal of Securities	x	price of Securities]	+	accrued interest/ return

Note:

Price of Securities	:	1) OMO Outright Transaction

Price of Securities as determined by Bank Indonesia if an Outright Transaction is conducted under tender mechanism, and/or price of Securities under an agreement of parties if an Outright Transaction is conducted under non-tender mechanism;

2) Outright Transaction due to second leg settlement failure

a) For Repo transaction, price of Securities as announced on BI-ETP System and BI-SSSS on the date of the highest Outright Transaction is equal to the price in the first leg transaction.

b) For Reverse Repo transaction, price of Securities as announced on BI-ETP System and BI-SSSS on the date of the lowest Outright Transaction is equal to the price in the first leg transaction.

Accrued Interest or Accrued Return : Right on coupon or return of Securities calculated as from 1 (one) day after the last date of coupon or return payment until the Outright Transaction settlement date.

3. Early redemption of SBI

In the event of settlement failure of due Repo Transaction or due lending facility using SBI, calculation of cash settlement is as follows:

$$\text{cash of early redemption} = \frac{\text{nominal value x 360}}{360 + (\text{discount rate x remaining term})}$$

Note:

Discount Rate	:	Weighted average of discount rate on SBI issuance
Remaining term	:	Actual days calculated 1 (one) day after the date of settlement failure of Monetary Operation transaction until SBI maturity date.

4. Early redemption of SDBI

Early redemption of SDBI is conducted in the event of settlement failure of due Repo Transaction, due lending facility, or transaction between Bank and a party other than Bank using SDBI with the following calculation of cash settlement:

$$\text{cash of early redemption} = \frac{\text{nominal value of failure settlement x 360}}{360 + (\text{discount rate x remaining term})}$$

Note:

Discount Rate	:	Weighted average of discount rate on SDBI issuance
Remaining term	:	Actual days calculated 1 (one) day after the date of settlement failure of Monetary Operation transaction until SDBI maturity date.

V. CALCULATION OF COLLATERAL VALUE AND SETTLEMENT VALUE OF SECURITIES IN FOREIGN CURRENCIES

1. Nominal value of Securities in foreign currencies collateralized in the first leg settlement is calculated as follows:

$$\text{nominal value of collateralized Securities in foreign currency} = \frac{\text{first leg settlement value}}{\text{transaction rate} \times (\text{Securities price - haircut})}$$

Note:

First leg settlement value	:	Rupiah nominal value obtained in the first leg settlement
Transaction rate	:	Middle rate of Bank Indonesia transaction rate on a transaction date
Securities price	:	Securities price as announced on the implementation of transactions for securities in foreign currencies (sovereign bond)
Haircut	:	Haircut as announced on the implementation of transactions for securities in foreign currencies (sovereign bond)

2. Exchange rate

The exchange rate applied in calculation of settlement value for transactions using Securities in foreign currencies shall be the rate of Bank Indonesia transaction on the transaction date.

3. Fund settlement value in the second leg is calculated as follows:

$$\text{second leg settlement value} = \text{first leg settlement value} + \text{Repo transaction interest}$$

$$\text{Repo transaction interest} = \text{first leg settlement value} \times \text{Repo rate} \times \frac{\text{term}}{360}$$

Note:

Term   : Repo Transaction term

VI. PARTICIPANTS AND INTERMEDIARY AGENCIES OF MONETARY OPERATIONS

1. Monetary Operation Participants

a. Monetary Operation participants, which may take part in Monetary Operations in Rupiah shall be Banks that meet the following requirements:

1) have an active status as participants on BI-ETP System, BI-SSSS, and BI-RTGS System;

2) are not being sanctioned with temporary suspension to take part in Monetary Operations;

3) must have current account with Bank Indonesia; and

4) must have securities account on BI-SSSS.

b. Monetary Operation participants, which may take part in Monetary Operation transactions in foreign currencies, shall be foreign exchange Banks that meet the following requirements:

1) are not being sanctioned with temporary suspension to take part in Monetary Operations;

2) must have foreign currency current account with Bank Indonesia; and/or

3) must have securities account with custodian agency appointed by Bank Indonesia, for Monetary Operation transactions with Securities in foreign currencies not administered by Bank Indonesia.

c. Monetary Operation participants must:

1) provide Rupiah fund in the current account with Bank Indonesia and/or Securities in Securities accounts on BI-SSSS adequate to meet mandatory settlements of Monetary Operation transactions; and/or

2) transfer fund in foreign currency to Bank Indonesia's account with correspondence bank and/or Securities in foreign currency to Securities account with Bank Indonesia or to Bank Indonesia's Securities account with custodian agency appointed by Bank Indonesia adequate to meet mandatory settlements of Monetary Operation transactions.

d. Monetary Operation participants conduct Monetary Operation transactions for their own interest.

2. Intermediary Agency

a. Intermediary agencies conducts OMO transactions for the interest of Monetary Operation participants.

b. The intermediary agencies set forth in letter a consist of:

1) brokers of Rupiah and foreign currency markets; and

2) securities companies appointed by the Finance Minister of the Republic of Indonesia as the major dealer.

c. The securities companies set forth in point b.2) may only become intermediary agencies in Repo Transactions, Reverse Repo Transactions, and purchase or sale of SBN in an outright manner in secondary market.

d. Requirements of intermediary agencies shall be as follows:

1) have an active status as BI-ETP System participants; and

2) are not being imposed with sanctions pertaining to business licenses by the competent supervisory authority.

VII. CLOSING PROVISIONS

On enforcement of this Bank Indonesia Circular Letter, Bank Indonesia Circular Letter Number 16/22/DPM dated December 24, 2014 concerning Criteria and Requirements for Securities, Participants, and Intermediary Agencies in Monetary Operations are repealed and declared invalid.

This Bank Indonesia Circular Letter shall come into effect on November 16, 2015.

For public cognizance, it is ordered that this Bank Indonesia Circular Letter be promulgated by placing it in the Official Gazette of the Republic of Indonesia.

Your kind attention shall be highly appreciated.

BANK INDONESIA,

(signed)

DODDY ZULVERDI

HEAD OF MONETARY

MANAGEMENT DEPARTMENT

1. Q : What is the background of this Circular Letter?

   A : This Circular Letter is issued to strengthen the infrastructures of Monetary Operation transactions conducted by Bank Indonesia through provision of Bank Indonesia-Electronic Trading Platform System (BI-ETP System) as a means of Monetary Operation transactions.

2. Q : What is BI-ETP System?

   A : BI-ETP System shall be an infrastructure used as transaction facility with Bank Indonesia and financial market transactions as specified in Bank Indonesia regulation concerning transaction implementation, securities administration, and real-time fund settlement.

3. Q : What are the criteria and requirements for Securities which may be used in Monetary Operations?

   A : 1. Criteria for Securities in Rupiah currency which may be used in Monetary Operations shall be as follows:

   a. issued by Bank Indonesia and/or the Republic of Indonesia;

   b. recorded on BI-SSSS; and

   c. are not put up as collateral.

   2. Criteria for Securities in Rupiah currency which may be used in foreign currencies shall be as follows:

    a.   issued by another country's government whose central bank has cooperation with Bank Indonesia, among others in the form of cross border collateral arrangement;

    b.   follow denomination of the issuing country;

    c.   recorded in the asset of Monetary Operation participant, which is recorded in the securities account of Monetary Operation participant with the agreed custodian agency;

    d.   have an investment grade; and

    e.   are put up as collateral.

3.   Requirements for Securities which may be used for Repo Transactions for OMO and lending facility shall be as follows:

    a.   SBI which has the shortest remaining term of 2 (two) business days in the second leg of Repo Transaction

    b.   SDBI which has the shortest remaining term of 2 (two) business days in the second leg of Repo Transaction

    c.   SBN which has the shortest remaining term of 3 (three) business days in the second leg of Repo Transaction

    d.   Securities in foreign currencies which have the shortest remaining term of 30 (thirty) calendar days in the second leg of Repo Transaction.

4.   Q : What types of Securities that meet the criteria of Securities which may be used in Monetary Operations?

    A : Types of Securities that meet the criteria of Securities which may be used in Monetary Operations consist of:

    1. SBI;

    2. SDBI;

3. SBN which consist of:

    a. SUN, consisting of SPN and Government Bonds including ZCB and ORI; and

    b. SBSN, consisting of Short Term SBSN and Long Term SBSN, including Retail SBSN; and

    c. Short term or long term securities issued by another government's country (sovereign bond)

5. Q : How is the determination of price and haircut of Securities in Monetary Operations?

   A : 1. SBI price and haircut

      a. SBI Price is determined by Bank Indonesia by considering among others the weighted average of discount rate on issuance and the remaining term of each SBI series.

      b. SBI haircut is determined 0% (zero percent).

      2. SDBI price and haircut

      a. SDBI price is determined by Bank Indonesia by considering among others the weighted average of discount rate on issuance and the remaining term of each SDBI series.

      b. SDBI haircut is determined 0% (zero percent).

      3. Price and haircut of SBN and Securities in foreign currencies

      a. Prices of SBN and securities in foreign currencies are determined by Bank Indonesia by considering among others the market price of each type and series of SBN and securities in foreign currencies (sovereign bond).

      b. SUN haircut is determined 5% (five percent).

      c.   SBSN haircut is determined 6.5% (six point five percent).

      d.   Haircut of securities in foreign currencies (sovereign bond) as announced by Bank Indonesia on the transaction date.

6.   Q : Who can become Monetary Operation participants and what are the requirements?

     A : 1. Monetary Operation participants, which may take part in Monetary Operations in Rupiah, shall be Banks that meet the following requirements:

        a.   has an active status as participants on BI-ETP System, BI-SSSS, and BI-RTGS System;

        b.   is not being sanctioned with temporary suspension to take part in Monetary Operations;

        c.   must have current account with Bank Indonesia; and

        d.   must have securities account on BI-SSSS.

       2. Monetary Operation participants, which may take part in Monetary Operations in foreign currencies, shall be Banks that meet the following requirements:

        a.   is not being sanctioned with temporary suspension to take part in Monetary Operations;

        b.   must have foreign currency current account with Bank Indonesia; and/or

        c.   must have securities account with custodian agency appointed by Bank Indonesia, for Monetary Operation transactions with Securities in foreign currencies not administered by Bank Indonesia.

7.   Q : Who can become intermediary agencies in OMO transactions and what are the requirements?

A : 1. Intermediary agencies, which may conduct OMO transactions for the interest of Monetary Operation participants, shall be brokers of Rupiah and foreign currency markets and securities companies appointed by the Finance Minister of the Republic of Indonesia as the major dealer.

2. Requirements of intermediary agencies shall be as follows:

   a. have an active status as BI-ETP System participants; and

   b. are not being imposed with sanctions pertaining to business licenses by the competent supervisory authority.

SUMMARY OF BANK INDONESIA CIRCULAR LETTER

Regulation : Bank Indonesia Circular Letter No. 17/38/DPM concerning Criteria and Requirements for Securities, Participants, and Intermediary Agencies in Monetary Operations

Date : November 16, 2015

Effective : As from November 16, 2015

I. Background

This regulation is issued to strengthen the infrastructures of Monetary Operation transactions conducted by Bank Indonesia through provision of Bank Indonesia-Electronic Trading Platform System (BI-ETP System) as a means of Monetary Operation transactions.

II. Regulation Materials

1. Criteria for Securities in Rupiah, which may be used in Monetary Operations, shall be issued by Bank Indonesia, and/or the Republic of Indonesia, recorded on BI-SSSS, and are not put up as collateral.

2. Criteria for Securities in foreign securities, which may be used in Monetary Operations, shall be issued by issued by another country's government whose central bank has cooperation with Bank Indonesia, among others in the form of cross border collateral arrangement, follow denomination of the issuing country, recorded in the asset of Monetary Operation participant, which is recorded in the securities account of Monetary Operation participant with the agreed custodian agency, have an investment grade, and are not put up as collateral.

3. Types of Securities, which meet the criteria to be used in Monetary Operations shall be SBI, SDBI, SBN, and short term or long term securities issued by another country's government (sovereign bond).

4. SBI and SDBI prices are determined by Bank Indonesia by considering among others the weighted average of discount rate on issuance and the remaining term of each SBI and SDBI series.

5. Prices of SBN and securities in foreign currencies are determined by Bank Indonesia by considering among others the market price of each type and series of SBN and securities in foreign currencies (sovereign bond).

6. Haircut of SBI and SDBI is determined 0% (zero percent), haircut of SUN is determined 5% (five percent), haircut of SUN is determined 6.5% (six point five percent), haircut of securities in foreign currencies (sovereign bond) are as announced by Bank Indonesia on the transaction date.

7. Monetary Operation participants, which may take part in Monetary Operations in Rupiah shall be Banks that have an active status as participants on BI-ETP System, BI-SSSS, and BI-RTGS System, are not being sanctioned with temporary suspension to take part in Monetary Operations, must have current account with Bank Indonesia, and must have securities account on BI-SSSS.

8. Monetary Operation participants, which may take part in Monetary Operation transactions in foreign currencies, shall be foreign exchange Banks that are not being sanctioned with temporary suspension to take part in Monetary Operations, must have foreign currency current account with Bank Indonesia, and must have securities account with custodian agency appointed by Bank Indonesia, for Monetary Operation transactions with Securities in foreign currencies not administered by Bank Indonesia.

9. Intermediary agencies, which may conduct OMO transactions for the interest of Monetary Operation participants, shall be brokers of Rupiah and foreign currency markets and securities companies appointed by the Finance Minister of the Republic of Indonesia as the major dealer.

10. Requirements of intermediary agencies shall have an active status as BI-ETP System participants and are not being imposed with sanctions pertaining to business licenses by the competent supervisory authority.